

FACT SHEET # 1 : PROJECT OVERVIEW

Regional Multi-State Interpretation of Small Farm Financial Data from the First Year Report on 2000 Great Lakes Grazing Network Grazing Dairy Data July 2002

Summary

The data and conclusions of this paper are derived from the report titled Regional Multi-State Interpretation of Small Farm Financial Data, the first year report of a USDA Integrated Food and Agricultural Systems (IFAS) grant project #00-52501-9708. Some strengths of this work include standardized data handling and analysis procedures, combined actual farm data of ten states and one province to provide financial benchmarks to help farm families and their communities be successful and sustainable. The main report is also based upon work supported by Smith Lever funds from the Cooperative State Research, Education and Extension Service, U.S. Department of Agriculture.

The first enterprise analyzed in this project is dairy grazing. To be considered a dairy farm for the study, 85% or more of gross income must be from milk sales, or 90% of gross income must typically be from dairy livestock sales plus milk sales. Additionally, to be considered a grazier for the study, one must harvest over 30 % of grazing season forage needs by grazing and must provide fresh pasture at least once every three days.

Management Intensive Rotational Grazing (MIRG) has become a more common dairy system in the northern U. S. This analysis of actual farm financial data from ninety-two graziers in the Great Lakes region provides some insight into the economics of grazing as a dairy system in the northern U.S.:

- There is a range of profitability amongst graziers. A comparison of the most profitable half with the least profitable half shows that the top herds had an advantage of \$2.41 in Net Farm Income From Operations per Hundred Weight Equivalent (NFIFO/CWT EQ). This is examined specifically in Fact Sheet #2 of this series.
- The average grazing herd with less than 100 cows had a higher NFIFO per cow and per CWT EQ than the average grazing herd with more than 100 cows. The smaller herds have a \$0.54 per CWT EQ advantage in the cost of paid labor, which accounts for more than the \$0.44 NFIFO/CWT EQ overall advantage that the smaller herds have. See Fact Sheet #3 in this series for more on this point.
- The average grazier in the study who is fully seasonal (stops milking at least one day each year), has a less desirable financial performance than the average non-seasonal herd, whether NFIFO/cow, NFIFO/CWT EQ or total NFIFO is used as the yardstick. Despite having access to data from many states, only seven seasonal herds' data were available for analysis. Fact Sheet #4 in the series investigates seasonal milking at greater length.
- The graziers in the study were economically competitive with confinement herds in the states that had comparable data from both groups. Fact Sheet # 5 in the series focuses on the comparisons between grazier and confinement dairy farming.

The study also confirms that accounting methodology and financial standards are important both in the accuracy and in the standardization of comparison values across large geographic areas that involve different combinations of production assets and management skills.

In comparing the results of this study with other data, it will help to understand the measures used here

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but not in all places in the country.

Here are a few key terms used and more fully explained in the full report:

Cost per Hundredweight Equivalent of Milk Sold (CWT EQ) is an indexing procedure which focuses on the primary product that is sold and standardizes farms in terms of milk price and many other variables for analysis purposes. The Cost of Production calculated for any two farms using the CWT EQ method are directly comparable. The Cost of Production calculated for farms using the cost per actual CWT method are not directly comparable.

A comprehensive evaluation of the cost of production of any business will examine several levels of cost. AgFA© is the name of the web-based, farm financial analysis and summarization computer program used in this study. The AgFA© Cost of Production report calculates basic, allocated and total costs.

Total Cost is all cash and non-cash costs including the opportunity cost of unpaid labor, management and capital supplied by the owning family.

Total Allocated Cost equals total cost minus the opportunity cost of unpaid labor, management and capital supplied by the owning family. Allocated cost also equals total income minus NFIFO.

Total Basic costs are all the cash and non-cash costs except the opportunity costs and interest, depreciation, labor, and management. Basic cost is a useful measure for comparing one farm to another that differs by: the amount of paid versus unpaid labor; the amount of paid versus unpaid management; the amount of debt; the investment level; and/or the capital consumption claimed (depreciation).

The Average Performance of Ninety-Two Grazing Dairy Farms

The 92 grazing dairy farm families that provided usable data display an average financial performance level that many farm families would be satisfied with. This level of financial performance, along with some other characteristics of grazing systems, suggest that it may be a viable alternative for farm families who want to be financially successful, especially with a dairy farm that relies primarily on family labor.

The measures of profitability calculated in the detailed cost of production and farm earnings reports in the full report are calculated using the historic cost asset valuation method (HC) to provide a better measure of profit levels generated by operating the farm business. Any comparison between the measures in this report and data based on the Current Market Value (CMV) of assets will be misleading.

What's Next

The standardization of data handling and analysis procedures in this project relies heavily on the Farm Financial Standards Guidelines (revised December, 1997). This and AgFA© opens the door to standardized multi-state analysis of other enterprises for which data can be collected. Additional data and enterprises are desired for the project.

Some data has been collected from organic dairy farms and from custom heifer raisers, as well as additional years of data from garzing dairy farms.

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